



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Administration

*For the Two Fiscal Years Ended
June 30, 2008*

NOVEMBER 2008

LEGISLATIVE AUDIT
DIVISION

08-13

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Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

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November 2008

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Administration for the two fiscal years 2006-07 and 2007-08. This report contains 11 recommendations related to Voluntary Employees Beneficiary Association expenses, procurement card payments, under-recovery of indirect costs, interentity loans and advances, internal controls, account authorizations, internal service funds, and issues of compliance with state law and accounting policy. The report also discloses two issues, with no recommendations, concerning holiday leave and electronic check clearing.

The department's written response to the audit recommendations is included beginning on page B-3 of the audit report. We thank the director and department staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

**Department of
Administration**

Janet R. Kelly, Director

Sheryl Olson, Deputy Director

Paul Christofferson, Administrator, State Accounting Division

Thomas B. O'Connell, Administrator, Architecture and Engineering Division

Marvin Eicholtz, Administrator, General Services Division

Connie Welsh, Administrator, Health Care and Benefits Division

Dick Clark, Chief Information Officer, Information Technology Services Division

Anne Goodwin, Commissioner, Banking and Financial Institutions Division

Brett Dahl, Administrator, Risk Management and Tort Defense Division

George Parisot, Director, Montana State Lottery*

Paula Stoll, Administrator, State Human Resources Division

Karen Powell, Chair, State Tax Appeal Board*

*Officials of entities attached to the department for administrative purposes are listed above if the entities' financial activities are included in the department's financial schedules. The Public Employees' Retirement Administration, the Teachers' Retirement System, and the Montana State Fund, which are also administratively attached to the department, issue separate annual financial statements and are audited separately, so officials of these entities are not listed.

REPORT SUMMARY

Department of Administration

This report documents the results of our financial-compliance audit of the Department of Administration (department) for the two fiscal years ended June 30, 2008. We issued an unqualified opinion on the financial schedules contained in this report. This means the reader may rely on the presented financial information and the supporting data on the state's accounting records.

This report contains 11 recommendations addressing compliance with state or federal laws and regulations and adequate controls. The report also includes disclosure issues related to holiday leave and electronic check clearing. Of the 12 recommendations made in the prior financial-compliance audit report, the department implemented seven, partially implemented three, and did not implement two.

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #17

We recommend the department:

A. Limit group benefit expenses to plan claims as required by state law.

Department Response: Concur B-3

B. Fund the volunteer employee benefit account from plan revenue.

Department Response: Concur B-3

C. Reimburse the group benefits fund \$498,622 for VEBA administrative costs charged to the group benefits fund.

Department Response: Concur B-4

Recommendation #28

We recommend the department pay the procurement credit card bill through an appropriation as required by the state constitution.

Department Response: Concur B-4

Recommendation #39

We recommend the department:

A. Charge the approved SWCAP costs to state agencies to the extent possible, as defined in state law.

Department Response: Do not concur B-4

B. Bill state agencies in proportion to the costs allocated in the SWCAP plan.

Department Response: Conditionally concur..... B-4

Recommendation #4..... 10

We recommend the department:

A. Obtain required documentation prior to loan approval as required by state law.

Department Response: Concur.....B-5

B. Request and obtain monthly billing certifications from agencies as required by state law.

Department Response: Concur.....B-5

Recommendation #5..... 12

We recommend the department:

A. Design and implement an internal control structure to ensure compliance with software license agreements.

Department Response: Concur.....B-5

B. Establish internal controls to limit costs charged to Homeland Security Grants to those listed in an approved grant budget.

Department Response: Concur.....B-5

Recommendation #6..... 12

We recommend the department complete its implementation of internal control procedures by monitoring and testing its established internal controls.

Department Response: Conditionally concur.....B-6

Recommendation #7..... 16

We recommend the department:

A. Pay counties the federal forest reserve allocations plus interest within the time frame required by state law.

Department Response: Concur.....B-6

B. Charge financial institutions for examinations conducted by the Banking and Financial Institutions Division as required by state law and administrative rule.

Department Response: Concur.....B-6

C. Assign auditors to local government entities in the time period required by state law.

Department Response: Conditionally concur.....B-6

D. Refund securities upon the completion of contracts as required by administrative rule.

Department Response: Concur.....B-6

E. Send out written notices to apparent owners of abandoned property as required by state law.

Department Response: Conditionally concur.....B-6

<u>Recommendation #8</u>	17
We recommend the department record expenditure accrual activity for construction costs in accordance with state accounting policy and state law.	
Department Response: Concur.....	B-7
<u>Recommendation #9</u>	18
We recommend the department:	
A. Ensure agencies with administrative responsibility for an accounting entity file a form to delete that role before assigning the entity for use by another agency.	
Department Response: Concur.....	B-7
B. Develop expense categories as needed to disclose expenditures in appropriate activity classifications.	
Department Response: Concur.....	B-7
<u>Recommendation #10</u>	20
We recommend the department:	
A. Record holiday leave liability as required by state accounting policy.	
Department Response: Concur.....	B-8
B. Follow state accounting policy for financial services license collections by third parties.	
Department Response: Concur.....	B-8
C. Record revenue for financial examination costs incurred but not paid by fiscal year-end as required by state policy.	
Department Response: Concur.....	B-8
<u>Recommendation #11</u>	21
We recommend the department ensure rates for its rent and maintenance internal service funds are commensurate with costs as required by state law.	
Department Response: Concur.....	B-8

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Department of Administration (department) for the two fiscal years ended June 30, 2008. The objectives of the audit were to:

1. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvement in management and internal controls of the department.
2. Determine whether the department complied with selected state and federal laws and regulations.
3. Evaluate the implementation status of prior audit recommendations.
4. Determine whether the department's financial schedules present fairly the results of its operations for the two fiscal years ended June 30, 2008.

Auditing standards require us to communicate, in writing, control deficiencies we identified as a result of audit objective #1 above and considered to be significant or material. A control deficiency exists when the design or operation of a control does not allow management or employees to prevent or detect misstatements in a timely manner. A significant deficiency is one or more control deficiencies that affects management's ability to accurately process transactions. A material weakness is one or more significant deficiencies that adversely affect management's ability to fairly present its financial schedules.

Table 1 below outlines the status of significant deficiencies and material weaknesses we identified during this audit.

Table 1 <u>Summary of Control Deficiencies</u>			
Subject	Significant Deficiency	Material Weakness	Page
Software Licensing Agreements	Yes	No	11
Testing and Monitoring Controls	Yes	No	12
Account Authorizations	Yes	No	17

This report contains 11 recommendations to the department. Other areas of concern deemed not to have a significant effect on the successful operations of the department are not included in this report, but have been communicated to management. In accordance

with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations made in this report.

As required by section 17-8-101(6), MCA, we analyzed the rates charged and fund equity in the department's Internal Service Funds. The results of our work are summarized on page 22.

Department Organization and Functions

The department provides services to other state agencies in the areas of accounting and financial reporting, payroll and employee benefits, warrant writing, capitol complex maintenance, state treasury services, insurance and risk management, information systems development, personnel management, purchasing, statewide leasing, and surplus property administration.

The following paragraphs describe the divisions which perform the department's primary functions and authorized full-time equivalent (FTE) for fiscal year 2007-08.

Office of the Director (14 FTE) - is responsible for the overall supervision and coordination of department programs and administratively attached boards and agencies. The department director chairs the Capital Finance Advisory Council (CFAC), which provides oversight of state debt management by performing analysis of prospective financing, existing debt load, and trends in public finance markets. The office also provides management support (accounting, budgeting, payroll, data processing, and personnel management) services to the department, includes the department's legal unit, and supports the Board of Examiners.

State Accounting Division (47 FTE) - establishes state accounting policies and procedures, operates the Statewide Accounting Budgeting and Human Resources System (SABHRS), administers the federal Cash Management Improvement Act (CMIA), processes warrants for all state agencies, and prepares the state's Basic Financial Statements.

Architecture and Engineering (17 FTE) - manages the remodeling and construction of state buildings. The division also formulates a long-range building plan for legislative consideration each session.

Banking and Financial Institutions Division (39 FTE) - is responsible for protecting the public's interest by regulation of all state-chartered banks and financial institutions. Supervision of regulated financial institutions is accomplished through on-site financial safety and soundness examinations conducted by division examiners.

General Services Division (103.1 FTE) - manages facilities leasing and repair and maintenance services for state agencies in the Capitol complex and several state owned buildings in the Helena area. The procurement and printing function of the division provides centralized purchasing, printing, and mail services to state agencies located in the Helena area.

Health Care and Benefits Division (17.87 FTE) - provides state employees and retirees with group medical, dental, prescription drug, life insurance, and other related group benefits. The division also administers employees' flexible spending accounts, a sick leave fund, and performs workers' compensation oversight for the state.

Information Technology Services Division (183.5 FTE) - establishes and enforces statewide information technology policies and standards. The division, administered by the Chief Information Officer, provides computer processing services for state agencies that access the central mainframe computer. The division is responsible for the development and implementation of the Strategic Plan for Information Technology. The division designs and develops data processing applications and provides maintenance support. The division provides data processing training, support, and consulting services for microcomputer and office automation systems. Disaster recovery facilities for critical data processing applications are also managed by the division.

Montana State Lottery (31.5 FTE) - sets policy and oversees activities and procedures of the lottery. The program director coordinates the lottery's marketing, operations, security, and administration. Legislative Audit Division information systems auditors perform biennial audits of lottery security (08DP-05). Financial activity of the Montana State Lottery is audited annually by a private CPA firm, under contract with the Legislative Audit Division.

Risk Management and Tort Defense (16 FTE) - provides insurance coverage for state agencies, administers the self-insurance and risk management program, and defends state agencies in tort claims lawsuits.

State Human Resources Division (48.5 FTE) - provides state agencies with human resource management services including training, position classification and pay, collective bargaining, and employee relations. The Office of Labor Relations is responsible for the collective bargaining. Additionally, the division publishes state rules, standards and policies relating to recruitment, selection, discipline, grievance, performance appraisal, leave, and other matters. The division also administers payroll and employee incentive awards.

State Tax Appeal Board (7.5 FTE) – resolves tax appeals concerning real and personal

property, income, corporate, natural resource, centrally assessed property, and new industry taxes. The three-member board and its staff is administratively attached to the department.

Montana Consensus Council, which provided assistance for building agreement on natural resource and other public policy issues, resolved controversial issues to prevent disputes, and fostered public awareness of cooperative approaches to building agreement on public policy, ceased operations on June 30, 2008.

Prior Audit Recommendations

The prior audit report for the two fiscal years ended June 30, 2006, contained 12 recommendations to the department. The department implemented seven, partially implemented three, and did not implement two recommendations. Recommendations not implemented, related to Voluntary Employees Beneficiary Association expenses and unconstitutional payments from the treasury, are discussed on pages 6 and 7, respectively.

Chapter II – Findings and Recommendations

Revenue Certification for Tax Rebate

In the May 2007 Special Session, the legislature enacted a law defining conditions under which income tax rebates would be granted to offset property tax payments. Section 15-30-140(1)(b)(ii), MCA, states, “The department of administration shall certify to the budget director on August 1, 2007, the amount of unaudited general fund revenue received in fiscal year 2007 as recorded when the fiscal year 2007 statewide accounting, budgeting, and human resources system records are closed in July 2007. Fiscal year 2007 is the period from July 1, 2006, to June 30, 2007. General fund revenue is as recorded in the statewide accounting, budgeting, and human resources system using generally accepted accounting principles in accordance with 17-1-102(2).”

The Governmental Accounting Standards Board defines “revenue” in governmental fund accounting as “increases in (sources of) fund financial resources other than from interfund transfers and debt issue proceeds and redemption of demand bonds...” Thus, revenue reflects a change in financial condition of a governmental fund in a given time period that does not include interfund transfers.

The certification made by the Department of Administration director stated “that the fiscal year 2006-07 general fund unaudited revenue is \$1,838,053,331, which includes an error that was discovered after the records were closed in July 2007. This amount is based on the assumptions underlying the estimates used to make the “official” legislative general fund revenue estimate that is used for making all financial policy decisions for the State of Montana. This amount differs from the unaudited general fund revenue used in the preparation of the state’s comprehensive annual financial report (CAFR) due to different definitions of revenue. The official revenue estimate includes transfers excluded from revenue under generally accepted accounting principles.”

Unaudited general fund revenue on the state’s accounting system at June 30, 2007, was \$1,772,125,637, which is less than the \$1,802,000,000 amount necessary to trigger the tax relief authorized by the statute. As a result, the certification supported an estimated \$36,450,000 in income tax rebates to certain residential property tax payers that were not allowable if unaudited general fund revenue, in accordance with generally accepted accounting principles, had been certified as required by state law.

Since section 15-30-140(1)(b)(ii), MCA, authorized a one-time certification, we make no recommendation to the department on this matter.

Voluntary Employees' Beneficiary Association (VEBA) Expenses

The department has paid administrative costs of the VEBA fund from the Group Benefits internal service fund.

Section 2-18-812(3), MCA, requires all reserve funds and premiums paid to the state employee group benefit plan account within the state self-insurance reserve fund to be expended for claims under the plan. The department made transfers from the employee group benefit plan account to another fund during the audit period that were not for claims.

In fiscal year 2006-07, Health Care and Benefits personnel paid \$55,645 in VEBA administrative expenses from the state employee group benefit plan. These diversions of plan assets, added to the \$382,576 in diverted assets that were reported in the previous audit (06-13), and interest on the amounts paid for these periods of \$60,401, increase the cumulative amount owed to the group benefits account by VEBA to \$498,622.

By paying VEBA expenses from the group benefits fund, the department is not in compliance with the statutory restrictions on the use of state employee group benefit fund resources. Additionally, since the employee group benefits fund is an internal service fund and fees must be commensurate with costs, the payment of costs not related to group benefits could result in increased fees, thereby shifting the operating costs of a voluntary account to state employee health plan participants.

The department sought legislation to increase the resources of VEBA. The legislature enacted Chapter 503, Laws of 2007, which allowed employees to place accumulated vacation hours in VEBA. Although the legislation generated an increase in VEBA assets, the increase as of June 30, 2008, was not sufficient to repay all VEBA administrative expenses from previous years. For fiscal year 2007-08, VEBA was self-supporting and generated funds necessary to repay amounts advanced for that year. The department also requested proposals for VEBA administration as a way to lower administrative costs of the program, but did not receive any new responses. The department made changes to existing administrative contracts to lower administrative costs.

RECOMMENDATION #1

We recommend the department:

- A. Limit group benefit expenses to plan claims as required by state law.*
 - B. Fund the volunteer employee benefit account from plan revenue.*
 - C. Reimburse the group benefits fund \$498,622 for VEBA administrative costs charged to the group benefits fund.*
-

Unconstitutional Payments from the Treasury

The department administers the state's procurement card program. As administrator of the program, the department pays the credit card bill for the entire state. The department distributes the credit card charges to the responsible agencies where the charges are recorded to expenditure accounts and against appropriations for each agency. However, the actual credit card bill is paid out of the treasury using a liability account rather than an expenditure account. The Constitution of the State of Montana in Article VIII, Section 14 states "... no money shall be paid out of the treasury unless upon an appropriation made by law and a warrant drawn by the proper officer in pursuance thereof." The liability account transactions processed to pay the credit card do not get charged against appropriations. In fiscal years 2006-07 and 2007-08, total procurement card payments from the treasury totaled approximately \$19,523,870 and \$24,304,374, respectively. In the previous audit, we documented \$56 million in procurement card charges paid in this way.

We reviewed department and agency transactions related to the procurement card for one month. We noted the department did initiate transactions to collect cash from accounts at the responsible agencies. We further noted not all agencies reviewed, edited, or approved the coding of procurement card expenditure transactions in a timely manner following the disbursement of funds from the treasury. Under current department procedure, agencies are required to revise and process an expenditure transaction for each procurement card charge on employees procurement cards within eight days. If the agency makes errors in its corrections, the transaction will not post. As a result, money was paid out of the treasury days or even weeks before appropriations were actually charged, which violates the constitution.

Department personnel stated their procedures to distribute the credit card purchases to each agency ensure the money paid out of the treasury to pay the bill will be charged against an appropriation. However, as noted above, the payment of the procurement

card bill and the entries to record expenditures do not always happen on the same day. Department personnel further stated that by paying the bill promptly, the department is maximizing the rebate received to fund the program and also prevents the department from having to pay interest or late payment charges.

In the previous audit, department management stated that its current procedure complied with the intent of the constitution and that the net effect of all the related accounting entries records procurement card expenses against appropriations at the agencies which incurred the costs. The department did not concur with the audit recommendation and took no corrective action. Although the department is paying the bill to effectively manage the procurement card program, their procedures are in violation of the constitution. The department should pay the procurement bill by charging an appropriation as required by the constitution. The department could comply by charging each agency's default distribution at the time the procurement card bill is paid.

RECOMMENDATION #2

We recommend the department pay the procurement credit card bill through an appropriation as required by the state constitution.

Underrecovery of Indirect Costs

The department did not recover from state agencies the full amount of costs eligible for recovery under Statewide Cost Allocation Plan for fiscal year 2007-08.

The state provides certain services, such as personnel administration and data processing, to operate agencies on a centralized basis. Most costs of supporting agency services are eligible charges to federal programs. States that desire to charge centralized service costs to federal grants and contracts must prepare a Statewide Cost Allocation Plan (SWCAP) to allocate central services costs to the various agencies that they benefit. Section 17-1-105(1), MCA, requires the department to annually prepare a SWCAP distributing service agency indirect costs among the agencies. We noted the following issues concerning the department's implementation of SWCAP in fiscal year 2007-08.

- ♦ The department underbilled SWCAP costs to 24 agencies for a total of \$2,313,819 in lost General Fund revenue. Among all agencies, the amount billed as a percentage of the SWCAP plan allocation varied from 4.98 to 100 percent.

- ♦ Federal regulations require that central services costs be assigned to benefitting activities on a reasonable and consistent basis. The allocation of billed costs was not consistent because the billed portion of the SWCAP allocation, based on available budget, led to wide variations in the percentage of SWCAP plan costs that were actually paid. Therefore, we question \$1,953,669 in SWCAP paid by agencies for fiscal year 2007-08.

According to department personnel, there was not enough budget authority at the agencies to pay for these costs. Rather than bill the full amount, the department, in consultation with the Office of Budget and Program Planning, billed the lesser of the plan amount or the agency's budget amount for indirect costs.

RECOMMENDATION #3

We recommend the department:

- Charge the approved SWCAP costs to state agencies to the extent possible, as defined in state law.*
 - Bill state agencies in proportion to the costs allocated in the SWCAP plan.*
-

Interentity Loans and Advances

The department authorizes interentity loans and advances for all state agencies. Interentity loans with repayment periods exceeding one year are classified as long-term. Agencies request department approval for a loan by submitting a form which presents the amount of the loan, the funds involved, and the repayment schedule. Department personnel review and approve the loans based on the documentation on the form.

Long-term Loans

The department approved long-term interentity loans without receiving documentation of the conditions set in statute.

Section 17-2-107(8), MCA, in part, requires agencies to document in their loan request that the total loan balance does not exceed total receivables from federal, private, or other governmental entity sources. For two of five loans reviewed, the applicant did not provide the required support, nor did the department request this documentation. According to department personnel, the department relies on the agency's statements as to ability to repay the loans, and department staff do not have time to review all details for every loan requested.

Certifications

Section 17-2-107(9), MCA, requires an agency to certify to the department that it has, and will, continue to bill the federal government or other third party timely as a condition for receiving department approval of the long-term interentity loan. The requesting agency shall recertify its timely billing status to the department at least monthly during the term of the loan. If the requesting agency fails to recertify the timely billing, the statute states the department shall cancel the loan and return the money to its original source.

We reviewed documentation for long-term loans to federal special revenue funds. We noted the department did not obtain certifications of timely billing for any loans in fiscal year 2006-07. In state fiscal year 2007-08, three out of five loans did not have any certifications. According to department personnel, the department did not require agencies to submit the required monthly certifications until April 2008.

RECOMMENDATION #4

We recommend the department:

- A. *Obtain required documentation prior to loan approval as required by state law.*
 - B. *Request and obtain monthly billing certifications from agencies as required by state law.*
-

Internal Control Issues

Internal control is a process affected by management designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. State accounting policy outlines management's responsibility for establishing and maintaining agency internal controls to safeguard and account for the resources entrusted to them to carry out government programs. To fulfill this responsibility, management must ensure controls are properly designed, documented, and implemented. Adequate internal controls allow managers to delegate responsibilities to staff and contractors with reasonable assurance that what they expect will happen, actually does. The following sections describe areas where the department's internal controls can be improved.

Software Licensing Agreements

The department does not have internal controls over monitoring compliance with software license agreements.

The department's Information Technology Services Division (ITSD) enters into license agreements with software companies for various software applications. To determine license fees owed for software use, ITSD conducts annual surveys in which agencies provide ITSD with software application use data. ITSD uses this data to calculate payments to software companies based on the license agreement. During fiscal year 2007-08, an audit conducted by a software provider found noncompliance with an agreement, which resulted in a \$921,000 settlement with the provider. ITSD management said it had no written control procedures in place to ensure compliance with software licensing agreements. The survey data did not alert ITSD to the noncompliance. Provisions of licensing agreements vary in ways use and user access are charged. Without effectively designed controls for monitoring software license requirements, there is significant risk of noncompliance with terms of software license agreements. The potential for large payouts on each agreement makes this a significant control deficiency.

Homeland Security Grants

The department did not effectively implement an internal control process for Homeland Security Grants.

The department receives Homeland Security funds from the Department of Military Affairs (DMA). DMA approves the department's application for the grant funds. Federal regulations restrict reimbursement to the items listed in the approved application budget. We noted 25 instances in fiscal years 2006-07 and 2007-08 where the department spent federal Homeland Security funds on costs that were not listed in the application budget. Department personnel indicated the costs pertained to the job duties and functions of those working on the grant. However, the approved grant budget sets the types of costs for which grant reimbursement is allowable.

RECOMMENDATION #5

We recommend the department:

- A. *Design and implement an internal control structure to ensure compliance with software license agreements.*
 - B. *Establish internal controls to limit costs charged to Homeland Security Grants to those listed in an approved grant budget.*
-

Monitoring and Testing of Internal Controls

The department has not fully implemented its internal control procedures in accordance with state accounting policy.

We identified significant control deficiencies related to authorization of accounting entity changes and software licensing agreements on pages 17 and 11, respectively. The errors disclosed in the report sections may have been detected by department staff if monitoring and testing procedures for established internal controls had been in place.

State accounting policy outlines management's responsibility for establishing and maintaining internal controls to safeguard and account for the resources entrusted to them to carry out government programs. State policy requires agencies to implement internal control procedures. To assist agencies with the implementation process, the department's Accounting Bureau issued an internal control guidebook. The guidebook includes an internal control evaluation and monitoring plan, which recommends each agency monitor and test its internal controls and evaluate and report the results of its testing.

The department has developed and is continuing to develop written internal control procedures for its own operations. However, the department did not have documentation of monitoring or testing of these established procedures.

RECOMMENDATION #6

We recommend the department complete its implementation of internal control procedures by monitoring and testing its established internal controls.

State Compliance

We tested the department's compliance with selected state laws and regulations applicable to department operations. The following section describes areas where the department's compliance with state laws can be improved.

Federal Forest Reserve Funds

The department did not comply with state law in distributing Federal Forest Reserve Funds.

The department makes Federal Forest Reserve Program payments to local governments. This responsibility passed from the State Auditor's Office to the department in fiscal year 2007-08. The objective of this program is to share receipts from the national forests with the states in which these forests are situated. During fiscal year 2007-08, the department received funds from the federal government on December 21, 2007, totaling \$13,027,514. The department created a voucher to disburse the funds to the eligible counties on December 27, 2007.

Between the date when the funds were received and the date they were distributed to the counties, they were invested by the Board of Investments and earned interest. Section 17-3-211(1), MCA, requires the state treasurer to pay the apportioned amounts, plus interest earned, to the respective counties within 30 days after receiving the full payment. The interest amount totaled \$6,840, and was not paid to the counties until February 4, 2008, or 40 days after the funds were received from the federal government.

Department personnel indicated they were not aware the interest payment was required if the counties were paid within 30 days. The department indicated in the future they will pay interest as required by law.

Fees for Examinations of Financial Institutions

The department did not bill for examinations of certain financial institutions in the manner prescribed in state law.

State law empowers the department to conduct examinations of deferred deposit companies, title companies, residential mortgage brokers, and loan originators, and requires annual examinations of consumer loan businesses. For deferred deposit and title companies, state law specifies that these companies shall be examined by the department and charged a fee of \$300 a day for each examiner conducting the examination. For consumer loan businesses, department administrative rule has established a \$300 per day fee for each examiner conducting the examination.

Rather than billing \$300 a day for each examiner, the department billed using an hourly rate for state fiscal years 2006-07 and 2007-08. In addition, the department charges an administrative fee to cover travel costs related to the examinations. State law and administrative rule set a daily rate for the examinations and does not authorize the administrative fee. Department personnel said an hourly billing method based on a charge of \$300 per examiner per eight hour day was equitable to both the state and to licensees and would not result in overcharges to licensees or under-recovery of department costs.

Local Government Audits

The department did not designate auditors for local governments that did not contract for an audit within 90 days.

State law requires local government entities to submit financial reports to department's Local Government Services Bureau each year. Depending on the financial information reported, the department may require an audit. Section 2-7-506(5), MCA, requires the department to designate an independent auditor to perform the audit if a local government entity fails to present a signed contract to the department for approval within 90 days of receipt of the audit notice. The department tracks the date of notice and date of receipt of a signed audit contract. As of April 2008, three entities that received a notice had not furnished an audit contract within 90 days.

According to department personnel, the department would have to develop a procedure for selecting an auditor. In addition, if the department selected an auditor for the entity, the auditor could experience difficulty in collecting the audit fee, for which the entity is responsible, from an unwilling participant. Department personnel said the department has never assigned an auditor to a local government entity and has succeeded in obtaining a contract, although not always within the 90-day deadline. However, the law does not provide an option to designating an auditor if the local government does not sign a contract within 90 days.

Contract Management

The department did not return performance security dollars once the contracts were completed.

According to section 18-4-312(1), MCA, for state contracts for the procurement of services or of supplies, the department may require bid security or contract performance security to guarantee the faithful performance of the contract and the payment of all laborers, suppliers, mechanics, and subcontractors. Administrative Rule states that all contract performance security, except bonds, will be returned to the successful bidder

or offeror upon completion of the contract requirements. We reviewed selected contract files and noted the following problems:

- ♦ We found one contract where security was obtained from a vendor in the amount of \$4,350. The contract expired in September 2006, and the department did not return the security amount. According to department personnel, there are no current procedures/policies to ensure the contract closing process is completed. When the contract was closed the refunding of the security was overlooked.
- ♦ Security was obtained from a vendor in the amount of \$12,408 at the inception of a contract for services in July 2004. Upon renewal of the contract, the new contract did not reflect the security requirement. The department still has this security amount, but at the time of renewal had no criteria for keeping the deposit. Department personnel said the contract had been in effect for several years, which included several amendments. The bid security was included in the initial contract but was not reflected in the amendments, personnel said.

Stale-Dated Warrants

The department is not sending written notices to recipients of warrants that are reported as abandoned property.

Warrants are considered stale-dated 180 days or six months after the date of issuance. Three years and six months after the warrant is stale-dated, the warrant must be classed as unclaimed property. The department is required by section 70-9-808, MCA, to submit reports of all property assumed abandoned, and file an affidavit stating that they have sent written notices to the apparent owners of the abandoned property. The department is not sending written notices to the apparent owners, and therefore not signing an affidavit. Department personnel indicated they were not aware of this requirement and have not been issuing written notices. A department official estimated sending notices for approximately 4,900 stale-dated items per year will cost \$10,000.

RECOMMENDATION #7

We recommend the department:

- A. Pay counties the federal forest reserve allocations plus interest within the time frame required by state law.
 - B. Charge financial institutions for examinations conducted by the Banking and Financial Institutions Division as required by state law and administrative rule.
 - C. Assign auditors to local government entities in the time period required by state law.
 - D. Refund securities upon the completion of contracts as required by administrative rule.
 - E. Send out written notices to apparent owners of abandoned property as required by state law.
-

Accounting Issues

Section 17-1-102(4), MCA, requires the department to input all necessary transactions before the end of the fiscal year to present the receipt, use, and disposition of all money and property, for which it is accountable, in accordance with generally accepted accounting principles. The one exception to this is that the department is required to record certain encumbrances, which are commonly referred to as “A” accruals, as expenditures and liabilities. The department establishes state accounting policy to implement this law. The following sections describe instances where the department recorded transactions that did not comply with state law or accounting policy.

Capital Projects Accounting

The department recorded expenditures for construction work completed in one fiscal year in the following fiscal year.

The department administers construction projects for the state. We found the department’s accounting staff did not record all expenditures for construction work completed on or before June 30, 2007, the last day of the fiscal year. State accounting policy requires agencies to record expenditures for valid obligations incurred but unpaid as of the end of fiscal year. The department received invoices for work completed by June 30, 2007, before the books closed, and recorded the costs as expenditures in the following fiscal year. As a result, construction expenditures on the financial schedules were understated by \$2,156,304 in fiscal year 2006-07 and overstated in fiscal year 2007-08 by the same amount.

Department personnel indicated it is difficult to identify all contracts with unbilled costs at June 30 because of the large number of vendors and contractors billing for services on division administered contracts. However, personnel said many contractors bill quickly to receive payment sooner. A department official said most projects are funded with continuing appropriations, so program funding is not affected by the timing of expenditures. However, expenditure amounts are not reported in the proper fiscal year if the activity is not recorded as required by state policy.

RECOMMENDATION #8

We recommend the department record expenditure accrual activity for construction costs in accordance with state accounting policy and state law.

Account Authorizations

As part of its role to establish a system of financial control for the state, section 17-2-106(1), MCA, assigns the department the power to create and abolish accounts on the state's accounting system. The following two issues discuss situations where the department's exercise of this power resulted in misstatements on the state's accounting records.

Accounting Entity Change

At the request of a state agency, the department changed the name and use of an existing accounting entity. Although both the agencies that had been using the state special revenue fund account approved the change, the agency with administrative responsibility did not submit the required form to delete its role of administrative responsibility for the account. When more than one agency uses an accounting entity, the responsible agency receives all cash as part of the fiscal year-end closing process. As a result of not changing the responsible agency, the resources of the agency actively using the account transferred to the account at the other agency during the fiscal year-end closing process. Cash and fund balance were overstated in the state special revenue fund at June 30, 2008, by \$15,222,000 at the Department of Corrections and understated at the Office of Public Instruction by the same amount. The statewide totals for cash and fund balance in the state special revenue fund were not affected.

The department has designed a form to enter changes in agencies authorized to use an accounting entity. On-line instructions for the use of the form state that all changes to funds will only be accepted from the administering agency of the accounting entity. Although the Department of Corrections, as administering agency, had concurred with

the change in use of the account by e-mail, the department did not request that they file a form to eliminate their administrative role. By not following its own control procedure, the department allowed changes in the use of the entity that did not include transfer of administrative responsibility, resulting in material financial impact at two agencies.

Property Tax Refund

Section 17-1-102(3), MCA, states that the uniform accounting and reporting system must contain general expenditure categories, such as personal services, operating expenses, equipment, capital outlay, local assistance, grants, benefits and claims, transfers, and debt service. In anticipation of legislation authorizing property tax offset payments from the General Fund, the Department of Revenue requested that the department establish an expenditure account for recording payments to property tax payers. The department approved this account in the operating expense category.

The operating expense category includes costs associated with state government operations. The property tax offset payments are not a cost of government, so placing the expenditure account for the tax offset payments in the operating expense category is not appropriate. The state disbursed \$94,578,457 to property tax payers from the General Fund in fiscal year 2007-08 under provisions of section 15-30-140, MCA.

Department personnel described the property tax offset expenditure as a direct expenditure of the Department of Revenue rather than a reduction of property tax revenue. The department considered the payments as a legislatively mandated cost of administering tax law. The department should assign expenditure codes to appropriate expense categories or develop expense categories that pertain to material activities.

RECOMMENDATION #9

We recommend the department:

- A. *Ensure agencies with administrative responsibility for an accounting entity file a form to delete that role before assigning the entity for use by another agency.*
 - B. *Develop expense categories as needed to disclose expenditures in appropriate activity classifications.*
-

Other Accounting Issues

The department has established state accounting policy related to recording liabilities and revenue. The following three cases discuss situations where department compliance with these policies can be improved.

Accrued Holiday Leave Liability

The department did not properly record a liability for accrued holiday leave prior to June 30, 2008.

The department records the compensated absences liability for all state agencies. This liability includes sick leave, vacation, and nonexempt compensated leave earned but not yet used by employees, but does not include unused holiday leave credited to employees. State accounting policy requires the department to record expenditures and a liability for valid obligations incurred but not paid as of the end of the state fiscal year. Department personnel said accrued holiday leave is a statutory obligation for a paid holiday where the employee did not take time off on the day designated in law. As of May 2008, the unrecorded holiday leave liability was \$751,743. In response to audit inquiries, the department recorded holiday leave liability at fiscal year-end 2007-08.

Third Party Revenue

The department did not properly record mortgage broker and loan originator licenses revenue collected by a third party.

The department's Banking and Financial Institutions Division (BFID) used on-line renewal and application submission for the mortgage brokers and loan originator licenses. BFID contracts with a third party to collect this license revenue. The contractor keeps a portion of the revenue collected to pay for its services. State accounting policy states that a collection cost exists for the department if it receives payment from the contractor for the transactions processed that is less than the revenue the department would have recorded if it had been paid directly. Revenue should be recorded at the full amount of each license issued and expenditures should be recorded for the collection costs withheld by the contractor.

We noted the department did not record the full license revenue amount and the expenditure for the contractor's fee, but rather recorded the net amount received as revenue. For the documents tested, the department understated revenue and expenditures in the state special revenue fund by \$3,213 and \$54 in fiscal years 2006-07 and 2007-08, respectively. According to the department's accounting staff, they were not aware expenditures needed to be recorded and, at times, did not have adequate information from BFID program personnel.

In the documents we tested, we also noted that the amount received by the state's treasury did not match what was reported as collected for these licenses by the contractor. Accounting policy also requires the receiving agency to perform a timely reconciliation

of all agent-collected revenues. At a minimum, this reconciliation must be performed on a monthly basis. Department personnel indicated that they have not performed reconciliations, and did not know why there were differences in the revenue amounts. Unreconciled differences increase the risk that diversions of revenue could occur and remain undetected. Performing timely reconciliations will help properly account for these revenue sources.

Financial Institutions Examinations

The department did not record revenue for some financial examinations.

The Banking and Financial Institutions Division conducts examinations of credit unions, title companies, deferred deposit companies, and consumer loan businesses. At state fiscal year-end 2007-08, the BFID did not record a receivable and revenue for those exams that had been conducted but no payment had been received from the examinee. State accounting policy requires receivables, net of estimated uncollectible amounts, be recorded at fiscal year-end. BFID personnel indicated they were not aware an entry needed to be made for these amounts, and estimated \$38,000 should have been recorded at state fiscal year-end 2007-08.

RECOMMENDATION #10

We recommend the department:

- A. *Record holiday leave liability as required by state accounting policy.*
 - B. *Follow state accounting policy for financial services license collections by third parties.*
 - C. *Record revenue for financial examination costs incurred but not paid by fiscal year-end as required by state policy.*
-

Internal Service Funds

We reviewed the rates charged and the fund equity of the department's Internal Service Funds as required by section 17-8-101(6), MCA. The table on page 22 summarizes the rate and fund equity status of internal service funds administered by the department.

Rent and Maintenance

The department did not adjust fees to be commensurate with costs in its Rent and Maintenance fund.

The department rents office and warehouse space in the Capitol complex at rates approved by the legislature. Working capital exceeded 60 days worth of expenditures by \$340,679 at June 30, 2008. According to a department official, revenue in the account included insurance proceeds of \$738,312 for payment on the fidelity bond of an employee charged with embezzling funds from the department in previous fiscal years. The department plans to offset the insurance recovery against revenue in calculating its rental rates for the 2010-2011 biennium, the official said. To achieve rates commensurate with costs, we believe rate reductions should have occurred in fiscal year 2007-08, when the insurance proceeds were received during fiscal year 2007-08.

RECOMMENDATION #11

We recommend the department ensure rates for its rent and maintenance internal service funds are commensurate with costs as required by state law.

Table 2
Internal Service Funds

Internal Service Fund and Description	Fund Equity Reasonable	Rates Commensurate with Costs
ISD Proprietary - Manages information technology services for state government such as central mainframe computer processing, local and long-distance telephone networking, electronic government planning and coordination, and the State Accounting, Budgeting and Human Resource System.	YES	YES
Intergovernmental Training - Provides a variety of training products and facilitation services to state agencies.	YES	YES
Rent and Maintenance - Provides maintenance, security, and custodial services for buildings in the state capitol area.	NO	NO
Print & Mail Services - Provides mail room staff to operate a centralized mailing operation and services for printing and administration of a photocopy pool.	YES	YES
Central Stores - Purchases, warehouses, sells, and delivers commonly used items to all state agencies and other governments such as office supplies, paper, janitorial supplies, and printed forms.	YES	YES
Agency Insurance Int. Svc. - Provides for the investigation, defense, and payment of bodily injury and property damage claims incurred by all agencies, officers, and employees of the State of Montana.	YES	YES
Management Services - Coordinates preparation of the department's biennial budget for submission to the Office of Budget of Program Planning and its presentation to the legislature, processes budget change documents, and monitors approved budgets for compliance with state law and legislative intent. This also includes legal services which advises all divisions within the department on legal matters and the human resource unit which processes payroll and provides human resource functions for all divisions of the department.	YES	YES
Group Benefits Claims - Provides state employees, retirees, and their dependents with adequate medical, dental, and life and other related group benefits.	YES	YES
Payroll Fund - Provides for preparation and distribution of payroll and associated withholding and deductions of state employees.	YES	YES
Warrant Writing - Provides the warrant writer program to most state agencies for check writing and automatic-deposit capabilities.	YES	YES

Source: Compiled by the Legislative Audit Division.

Chapter III – Disclosure Issues

Banked Holidays

Section 1-1-216, MCA, designates specific days as legal holidays. Section 2-18-601(8), MCA, defines these legal holidays as days off with pay for state employees. Section 2-18-603(1), MCA, addresses the potential loss of holiday leave by an employee whose assigned work schedule designates the holiday as a day off.

Attorney General Opinion Volume 38, Number 16, issued in May 1979, stated that the holiday provisions of section 2-18-603, MCA, apply to full-time, salaried public employees and that vacation and holiday leave time for public employees are cumulative. The cumulative “banked holiday” benefit for exempt employees is payable if not used within a certain time at some agencies and may be accumulated and paid upon termination at others. Other agencies pay the exempt employee for the holiday and record compensated time for the hours worked on the holiday. At June 30, 2008, we found that nonuniversity system business units had accumulated \$751,743 of banked holiday liability on the state’s accounting records.

Since agencies record leave for time worked on holidays inconsistently, and legal guidance does not specifically require or preclude either alternative, we make no recommendation. This issue is presented for disclosure purposes only.

Electronic Check Clearing

Section 2-15-1002, MCA, designates the director of the department as the ex officio state treasurer. Section 17-1-111, MCA, lists fiscal duties of the state treasurer. Among those duties listed, the state treasurer:

- ♦ acts as custodian of all money and securities of the state unless otherwise expressly provided by law;
- ♦ receives and accounts for all money belonging to the state, not expressly required by law to be received and kept by some other person; and
- ♦ suggests plans for improvement and management of the public revenue.

In performing these duties, the department administers the state’s banking contract for cash in treasury; oversees deposits of cash, checks, and electronic funds transfers; and reconciles the state’s bank accounts to the state’s accounting records. The department’s treasury unit processed 1,465,454 checks worth \$2,112,082,737 between May 2007 and April 2008. Based on this information, we believe potential benefits exist for using an electronic check clearing process. Benefits include increased interest income from getting funds into the state’s bank account more quickly; decreased administrative costs

from efficiencies in scanning, reconciliation, and eliminating duplicate activity between the treasury unit and other agencies; and decreased costs of secure transport for checks from agencies to the treasury and from the treasury to the bank.

With the annual check value noted above, at the fiscal year 2007-08 STIP rate, the state has potential benefit of \$244,000 per year if check proceeds are deposited in the state's bank account an average of one day earlier than the current process allows.

We reviewed the state's banking contract and contacted personnel at the bank. Based on information from these sources, we estimated added processing costs for electronic check clearing to be \$95,254 per year. These costs include the clearing process and two years of storage in the software vendor's system.

Of funds received by the treasury, checks account for 18 percent of the dollar volume and 93 percent of the processing time spent by treasury personnel. By evaluating electronic check clearing as a multi-agency business process, the department may be able to implement changes that achieve net benefits statewide and at the agency level. We present this information to the department for consideration in its role as administrator of the treasury function and make no recommendation at this time.

Independent Auditor's Report and Department Financial Schedules

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedule of Changes in Fund Balances & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out of the Department of Administration for each of the fiscal years ended June 30, 2008, and 2007. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these financial schedules are presented on the basis of Montana state accounting policy, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities, and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Administration for each of the fiscal years ended June 30, 2008, and 2007, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

September 26, 2008

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Pension Trust Fund	Unexpended Plant Fund	Renewal & Replacement Fund	Agency Fund
FUND BALANCE: July 1, 2007	\$ 560,322,809	\$ 10,374,298	\$ 2,002,082	\$ 1,836,452	\$ 36,449,939	\$ 807,983	\$ 52,810,857	\$ 987,894	\$ 1,560,198	\$ (774,917)	\$ (7,420)	\$ 0
PROPERTY HELD IN TRUST: July 1, 2007												1,336,700
ADDITIONS												
Budgeted Revenues & Transfers-In	55,921,403	7,023,027	14,468,448		32,190,074	52,231,105	206,253,921					
Nonbudgeted Revenues & Transfers-In	5,409,605	1,386,175	6,869	23,792,390	63,070,768	41,441	1,365,475	2,244,144	749,641			
Prior Year Revenues & Transfers-In Adjustments	74,912	(7,004)			(405)	3,196	(19,887)	(48,756)				
Direct Entries to Fund Balance	55,748,513	25,123,559	767,830		11,185,234	2,150	123,575	879		14,028,861	33,558	
Additions to Property Held in Trust												779,061,514
Total Additions	117,154,433	33,525,757	15,243,147	23,792,390	106,445,671	52,277,892	207,723,084	2,196,267	749,641	14,028,861	33,558	779,061,514
REDUCTIONS												
Budgeted Expenditures & Transfers-Out	46,738,264	32,697,553	15,378,464		52,929,263	40,188,521	201,654,311			14,524,356	30,770	
Nonbudgeted Expenditures & Transfers-Out	164,459,692	775,278	1,829,581	24,881,889	6,014,861	11,615,981	2,183,450	575,002	(34)			
Prior Year Expenditures & Transfers-Out Adjustments	254,237	40,880				4,155	(546,922)					
Reductions to Property Held in Trust												780,427,982
Total Reductions	211,452,193	33,513,711	17,208,045	24,881,889	58,944,124	51,808,657	203,290,839	575,002	(34)	14,524,356	30,770	780,427,982
FUND BALANCE: June 30, 2008	\$ 466,025,049	\$ 10,386,344	\$ 37,184	\$ 746,953	\$ 83,951,486	\$ 1,277,218	\$ 57,243,102	\$ 2,609,159	\$ 2,309,873	\$ (1,270,412)	\$ (4,632)	\$ 0
PROPERTY HELD IN TRUST: June 30, 2008												(29,768)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Pension Trust Fund	Unexpended Plant Fund	Renewal & Replacement Fund	Agency Fund
FUND BALANCE: July 1, 2006	\$ 421,925,040	\$ 10,283,752	\$ 1,840,374	\$ 1,155,701	\$ 46,030,855	\$ 748,435	\$ 37,894,138	\$ 720,839	\$ 989,906	\$ (1,767,955)	\$ (63,937)	\$ 0
PROPERTY HELD IN TRUST: July 1, 2006												(263,143)
ADDITIONS												
Budgeted Revenues & Transfers-In	58,702,653	4,067,567	1,444,132		4,379,300	48,754,012	188,333,473					
Nonbudgeted Revenues & Transfers-In	133,757	1,554,764	26,028	41,405,728	19,399,857	91,103	642,289	909,916	1,027,415			
Prior Year Revenues & Transfers-In Adjustments	13,448	73,679	110,982		250	131	875,255		16,446			
Direct Entries to Fund Balance	202,530,209	19,886,656	1,883,096	3,450	6,762,487	14,322	61,838		(4,722)	30,642,314	626,164	
Additions to Property Held in Trust												715,885,917
Total Additions	261,380,067	25,582,666	3,464,238	41,409,178	30,541,894	48,859,568	189,912,855	909,916	1,039,139	30,642,314	626,164	715,885,917
REDUCTIONS												
Budgeted Expenditures & Transfers-Out	80,055,731	25,281,139	3,304,155		36,492,972	37,402,348	177,459,855			29,649,276	569,647	
Nonbudgeted Expenditures & Transfers-Out	42,859,326	50,205	0	40,728,427	3,629,838	11,438,731	(2,762,321)	642,861	473,378			
Prior Year Expenditures & Transfers-Out Adjustments	67,241	160,776	(1,625)			(41,059)	298,602		(4,531)			
Reductions to Property Held in Trust												714,286,074
Total Reductions	122,982,298	25,492,120	3,302,530	40,728,427	40,122,810	48,800,020	174,996,136	642,861	468,847	29,649,276	569,647	714,286,074
FUND BALANCE: June 30, 2007	\$ 560,322,809	\$ 10,374,298	\$ 2,002,082	\$ 1,836,452	\$ 36,449,939	\$ 807,983	\$ 52,810,857	\$ 987,894	\$ 1,560,198	\$ (774,917)	\$ (7,420)	\$ 0
PROPERTY HELD IN TRUST: June 30, 2007												1,336,700

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Pension Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS										
Licenses and Permits		\$ 283,982				\$ 4,400				\$ 288,382
Taxes	\$ 4,548	62	\$ 29			711	\$ 1,050			6,400
Charges for Services	7,953,894	3,479,768			\$ 499,558	7,917,308	192,112,944			211,963,472
Investment Earnings	32,115,447	104,502		\$ 390,661	1,394,363	205,144	2,982,472			37,192,589
Fines, Forfeits and Settlements	4,036,185						576,648			4,612,833
Sale of Documents, Merchandise and Property						43,821,594	4,994,516			48,816,110
Rentals, Leases and Royalties	120									120
Contributions and Premiums									\$ 749,641	749,641
Miscellaneous	793,393	2,606,860			3,128	407	1,597,397			5,001,185
Grants, Contracts, Donations and Abandonments		566,253					13,604	\$ 2,195,388		2,775,245
Other Financing Sources	16,160,715	1,360,771	6,840	23,401,729	93,363,388		1,685,892			135,979,335
Federal	341,618		14,468,448				1,541,390			16,351,456
Capital Contributions						326,178	2,093,596			2,419,774
Total Revenues & Transfers-In	61,405,920	8,402,198	14,475,317	23,792,390	95,260,437	52,275,742	207,599,509	2,195,388	749,641	466,156,542
Less: Nonbudgeted Revenues & Transfers-In	5,409,605	1,386,175	6,869	23,792,390	63,070,768	41,441	1,365,475	2,244,144	749,641	98,066,508
Prior Year Revenues & Transfers-In Adjustments	74,912	(7,004)			(405)	3,196	(19,887)	(48,756)		2,056
Actual Budgeted Revenues & Transfers-In	55,921,403	7,023,027	14,468,448	0	32,190,074	52,231,105	206,253,921	0	0	368,087,978
Estimated Revenues & Transfers-In	46,590,041	19,546,819	13,823,540		102,157,165	46,675,901	198,808,214			427,601,680
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 9,331,362	\$ (12,523,792)	\$ 644,908	\$ 0	\$ (69,967,091)	\$ 5,555,204	\$ 7,445,707	\$ 0	\$ 0	\$ (59,513,702)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS										
Licenses and Permits		\$ (167,918)				\$ 2,400				\$ (165,518)
Taxes	\$ (10,653)									(10,653)
Charges for Services	(107,375)	(1,222,208)			\$ 174,890	1,315,952	\$ 5,490,351			5,651,610
Investment Earnings	9,244,250	(82,784)	\$ (2,000)		(365,454)	8,922	938,179			9,741,113
Fines, Forfeits and Settlements	(998,661)									(998,661)
Sale of Documents, Merchandise and Property						4,071,752	144,496			4,216,248
Rentals, Leases and Royalties	20									20
Miscellaneous	(1,021,175)	1,165,914					(436,439)			(291,700)
Grants, Contracts, Donations and Abandonments		49,939								49,939
Other Financing Sources	2,344,558	(1,701,735)			(69,776,527)		1,297,267			(67,836,437)
Federal	(119,602)	(10,565,000)	646,908				11,853			(10,025,841)
Capital Contributions						156,178				156,178
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 9,331,362	\$ (12,523,792)	\$ 644,908	\$ 0	\$ (69,967,091)	\$ 5,555,204	\$ 7,445,707	\$ 0	\$ 0	\$ (59,513,702)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Pension Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS										
Licenses and Permits		\$ 376,945				\$ 2,000				\$ 378,945
Taxes	\$ 3,949	28	\$ 186			795	\$ 831			5,789
Charges for Services	7,038,212	3,314,531	(2,700)		\$ 298,162	6,818,824	178,929,664			196,396,693
Investment Earnings	34,899,405	40,129		\$ 1,139,830	1,103,298	287,069	3,268,835		\$ 203,322	40,941,888
Fines, Forfeits and Settlements	4,207,981	50,000								4,257,981
Sale of Documents, Merchandise and Property						41,564,593	4,939,789			46,504,382
Rentals, Leases and Royalties	97									97
Contributions and Premiums									840,539	840,539
Miscellaneous	737,215	307,235	(177,339)		100	1,417	1,554,684			2,423,312
Grants, Contracts, Donations and Abandonments	644	225,856	31,676					\$ 909,916		1,168,092
Other Financing Sources	11,614,875	1,381,286		40,265,898	22,377,847		1,157,214			76,797,120
Federal	347,480		1,729,319							2,076,799
Capital Contributions						170,548				170,548
Total Revenues & Transfers-In	58,849,858	5,696,010	1,581,142	41,405,728	23,779,407	48,845,246	189,851,017	909,916	1,043,861	371,962,185
Less: Nonbudgeted Revenues & Transfers-In	133,757	1,554,764	26,028	41,405,728	19,399,857	91,103	642,289	909,916	1,027,415	65,190,857
Prior Year Revenues & Transfers-In Adjustments	13,448	73,679	110,982		250	131	875,255		16,446	1,090,191
Actual Budgeted Revenues & Transfers-In	58,702,653	4,067,567	1,444,132	0	4,379,300	48,754,012	188,333,473	0	0	305,681,137
Estimated Revenues & Transfers-In	49,846,540	11,440,069	1,324,734		71,778,448	42,084,185	184,867,574			361,341,550
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 8,856,113	\$ (7,372,502)	\$ 119,398	\$ 0	\$ (67,399,148)	\$ 6,669,827	\$ 3,465,899	\$ 0	\$ 0	\$ (55,660,413)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS										
Licenses and Permits		\$ 262,695								\$ 262,695
Charges for Services	\$ (1,778,346)	(432,923)			\$ 73,162	\$ 76,703	\$ (119,481)			(2,180,885)
Investment Earnings	7,368,188	3,443	\$ (2,000)		208,291	146,816	2,805,853			10,530,591
Fines, Forfeits and Settlements	(862,948)									(862,948)
Sale of Documents, Merchandise and Property						6,264,592	656,999			6,921,591
Rentals, Leases and Royalties	(90)									(90)
Miscellaneous	1,071,676	(292,871)				12	402,605			1,181,422
Grants, Contracts, Donations and Abandonments	144	100,756								100,900
Other Financing Sources	3,053,622	(1,251,602)			(67,680,601)		(280,077)			(66,158,658)
Federal	3,867	(5,762,000)	121,398							(5,636,735)
Capital Contributions						181,704				181,704
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 8,856,113	\$ (7,372,502)	\$ 119,398	\$ 0	\$ (67,399,148)	\$ 6,669,827	\$ 3,465,899	\$ 0	\$ 0	\$ (55,660,413)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Architecture & Engineering Division	Banking and Financial Division	Director's Office	Corrections	Departments & Agencies	DPHHS	General Services Division	Health Care & Benefits Division	Information Tech Services Division	MT Consensus Council	Montana State Lottery	Risk Management & Tort Defense	State Accounting Division	State Human Resources Division	State Tax Appeal Board	University System	Total
Personal Services																	
Salaries	\$ 811,827	\$ 1,770,550	\$ 684,544				\$ 2,969,657	\$ 743,206	\$ 11,091,734	\$ 86,982	\$ 1,279,164	\$ 650,383	\$ 2,004,366	\$ 2,237,787	\$ 272,655		\$ 24,602,855
Hourly Wages							6,854										6,854
Other Compensation							517		15		1,250						4,092
Employee Benefits	232,294	476,281	194,310				1,088,841	211,578	3,001,444	32,257	426,302	211,373	604,333	670,308	77,104		7,226,425
Personal Services-Other			31,164				84,212	21,232	62,881		30,191	23,861	251,484	35,697			540,722
Total	1,044,121	2,246,831	910,018				4,150,081	976,016	14,156,074	119,239	1,736,907	885,617	2,860,183	2,943,792	352,069		32,380,948
Operating Expenses																	
Other Services	376,345	158,398	104,065				3,128,022	6,039,712	2,786,286	19,982	5,648,327	4,698,326	2,055,811	1,222,809	15,652	\$ 941,583	27,195,318
Supplies & Materials	38,108	28,185	32,440				333,272	189,761	1,937,681	225	304,544	18,943	100,164	120,899	4,181		3,108,403
Communications	28,156	38,614	13,941				3,652,926	59,038	6,169,277	2,240	724,283	16,737	592,220	63,163	5,007		11,365,602
Travel	45,246	215,924	13,211				11,544	10,834	296,672	3,840	67,838	20,732	54,149	72,188	9,640		821,818
Rent	52,272	138,241	38,650				2,124,531	133,780	8,455,701	3,840	120,808	60,322	131,578	139,486	19,003		11,418,212
Utilities							2,591,276				19,609	7,546					2,618,431
Repair & Maintenance	3,752	11,321	2,642				1,582,510		2,059,463	232	43,155	6,234	1,349,784	392,027	2,058		5,453,178
Other Expenses	121,275	148,695	196,960		\$ 1,102,515		943,580	796,922	3,636,612	4,859	23,292,318	124,038	3,672,829	336,777	11,737		34,389,117
Goods Purchased For Resale							8,845,656				908,264						9,753,920
Total	665,154	739,378	401,909		1,102,515		23,213,317	7,230,047	25,341,692	35,218	31,129,146	4,952,878	7,956,535	2,347,349	67,278	941,583	106,123,999
Equipment & Intangible Assets																	
Equipment					(1,162,089)		(72,468)		(533,243)		(15,000)					(338,083)	(2,120,883)
Capital Leases-Equipment-Nonbu							127,068										127,068
Intangible Assets													(1,611,420)	1,586,037			(25,383)
Total					(1,162,089)		54,600		(533,243)		(15,000)		(1,611,420)	1,586,037		(338,083)	(2,019,198)
Capital Outlay																	
Buildings				2,491,337	15,937,261	\$ 3,790,253			194,352							50,403,739	72,816,942
Other Improvements							(33,353)		42,163								8,810
Total				2,491,337	15,937,261	3,790,253	(33,353)		236,515							50,403,739	72,825,752
Local Assistance																	
From State Sources			14,151,957												166		14,152,123
From Federal Sources			22,457,131										11,067				22,468,198
From Other Income Sources									12,872,701								12,872,701
Total			36,609,088						12,872,701				11,067		166		49,493,022
Grants																	
From State Sources									608,576								608,576
From Federal Sources			81,976														81,976
Total			81,976						608,576								690,552
Benefits & Claims																	
From State Sources								113,721,077									113,721,077
OPEB Expenses			38,611				242,162	35,818	543,407		104,369	46,236	79,896	92,549			1,183,048
Insurance Payments								(2,407,984)				10,355,991					7,948,007
Total			38,611				242,162	111,348,911	543,407		104,369	10,402,227	79,896	92,549			122,852,132
Transfers																	
Accounting Entity Transfers	1,347,000	771	105,164,241		5,434,841	1,272,500	669,553			13,000	11,028,563	1,681,152	81,614,636			780,588	209,006,845
Total	1,347,000	771	105,164,241		5,434,841	1,272,500	669,553			13,000	11,028,563	1,681,152	81,614,636			780,588	209,006,845
Debt Service																	
Bonds			24,697,401		137,915												24,835,316
Capital Leases													8,134				8,134
Installment Purchases							32,050										32,050
Total			24,697,401		137,915		32,050						8,134				24,875,500
Total Expenditures & Transfers-Out	\$ 3,056,275	\$ 2,986,980	\$ 167,903,244	\$ 2,491,337	\$ 21,450,443	\$ 5,062,753	\$ 28,328,410	\$ 119,554,974	\$ 53,225,722	\$ 167,457	\$ 43,983,985	\$ 17,921,874	\$ 90,919,031	\$ 6,969,727	\$ 419,513	\$ 51,787,827	616,229,552
EXPENDITURES & TRANSFERS-OUT BY FUND																	
General Fund			\$ 118,908,329	\$ 106,509	\$ 2,745,706	\$ 913,000	\$ 2,500,594	\$ 284,592	\$ 971,232	\$ 105,004			\$ 83,057,330	\$ 1,440,384	\$ 419,513		\$ 211,452,193
State Special Revenue Fund	\$ 1,709,275	\$ 2,986,980	9,291,642	15,432	1,255,971	648,360	689,790	209,713	13,986,739	62,453		\$ 1,681,152				\$ 957,632	33,513,711
Federal Special Revenue Fund			13,264,577		590,704	336,239			1,166,066				1,850,459				17,208,045
Debt Service Fund			24,881,889														24,881,889
Capital Projects Fund	1,347,000		486,810	2,367,246	16,059,268	3,165,154			236,515							35,282,131	58,944,124
Enterprise Fund				2,150			658,852	6,878,853			\$ 43,983,985		284,817				51,808,657
Internal Service Fund			1,069,997		798,794		24,479,174	112,181,850	36,865,170			16,240,722	5,151,423	5,510,771		992,938	203,290,839
Private Purpose Trust Fund													575,002				575,002
Pension Trust Fund								(34)									(34)
Unexpended Plant Fund																14,524,356	14,524,356
Renewal & Replacement																30,770	30,770
Total Expenditures & Transfers-Out	3,056,275	2,986,980	167,903,244	2,491,337	21,450,443	5,062,753	28,328,410	119,554,974	53,225,722	167,457	43,983,985	17,921,874	90,919,031	6,969,727	419,513	51,787,827	616,229,552
Less: Nonbudgeted Expenditures & Transfers-Out	1,347,000	50,771	110,467,606		4,608,288		1,420,062	(2,302,335)	291,335		11,281,950	1,405,901	81,790,249	1,915,299		59,573	212,335,699
Prior Year Expenditures & Transfers-Out Adjustments		190			(3,362)		64,379	(790,436)	125,449		4,208	83,888	266,708	2,575	(1,252)		(247,653)
Actual Budgeted Expenditures & Transfers-Out	1,709,275	2,936,019	57,435,638	2,491,337	16,845,517	5,062,753	26,843,969	122,647,745	52,808,938	167,457	32,697,827	16,432,085	8,862,074	5,051,853	420,765	51,728,254	404,141,506
Budget Authority	1,780,922	3,617,336	60,811,033	20,333,211	157,596,414	36,611,381	29,053,196	123,140,528	114,179,531	336,320	37,452,789	19,781,881	9,294,645	5,300,682	422,766	327,287,473	947,000,108
Unspent Budget Authority	\$ 71,647	\$ 681,317	\$ 3,375,395	\$ 17,841,874	\$ 140,750,897	\$ 31,548,628	\$ 2,209,227	\$ 492,783	\$ 61,370,593	\$ 168,863	\$ 4,754,962	\$ 3,349,796	\$ 432,571	\$ 248,829	\$ 2,001	\$ 275,559,219	\$ 542,858,602
UNSPENT BUDGET AUTHORITY BY FUND																	
General Fund			\$ 2,014,729	\$ 613,490	\$ 1,290,166	\$ 200,001	\$ 20,763	\$ 103,098	\$ 5,740,986	\$ 11,357			\$ 45,915	\$ 85,498	\$ 2,001	\$ 100,000	10,228,004
State Special Revenue Fund	\$ 71,647	\$ 681,317	727,552	196,320	45,354,880	4,228,599	43,845		1,843,214	157,506		\$ 115,099				717,123	54,141,411
Federal Special Revenue Fund			620,756	4,786,077	7,313,060	2,906,664			25,804,818				67,707				41,299,082
Capital Projects Fund			91	11,837,028	85,384,671	24,213,364			28,169,011							80,747,996	230,352,161
Enterprise Fund				9,640			302,454	325,320			\$ 4,754,962		52,755				5,445,131
Internal Service Fund			12,267	399,319	1,408,120		1,842,165	60,056	12,564			3,234,697	266,194	163,331		598,502	7,997,215
Unexpended Plant Fund																192,653,502	192,653,502
Renewal & Replacement Fund																742,096	742,096
Unspent Budget Authority	\$ 71,647	\$ 681,317	\$ 3,375,395	\$ 17,841,874	\$ 140,750,897	\$ 31,548,628	\$ 2,209,227	\$ 492,783	\$ 61,370,593	\$ 168,863	\$ 4,754,962	\$ 3,349,796	\$ 432,571	\$ 248,829	\$ 2,001	\$ 275,559,219	\$ 542,858,602

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DEPARTMENT OF ADMINISTRATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	ADMIN FINANCIAL SERV DIVISION	ARCHITECTURE & ENGINEERING DIVISION	BANKING AND FINANCIAL DIVISION	CORRECTIONS	DEPARTMENTS & AGENCIES	DPHHS	GENERAL SERVICES DIVISION	HEALTH CARE & BENEFITS DIVISION	INFORMATION TECH SERV DIVISION	MT CONSENSUS COUNCIL	MONTANA STATE LOTTERY	RISK MANAGEMENT & TORT DEFENSE	STATE PERSONNEL DIVISION	STATE TAX APPEAL BOARD	UNIVERSITY SYSTEM	Total
Personal Services																
Salaries	\$ 2,956,265	\$ 803,970	\$ 1,749,152				\$ 2,766,116	\$ 500,793	\$ 9,145,169	\$ 101,774	\$ 1,218,109	\$ 661,434	\$ 1,283,042	\$ 221,804		\$ 21,407,628
Hourly Wages							324									324
Other Compensation							173				1,350					5,443
Employee Benefits	875,401	229,776	476,912				1,010,304	149,696	2,538,327	36,253	405,744	195,675	399,087	66,405		6,383,581
Personal Services-Other	328,497						16,642		(164,643)		(3,387)	3,692	36,628			202,485
Total	4,160,163	1,033,746	2,226,064				3,793,559	635,545	11,518,853	138,027	1,621,816	860,801	1,718,757	292,129		27,999,460
Operating Expenses																
Other Services	3,609,002	92,366	68,960				3,051,283	5,051,480	6,403,596	10,072	5,194,902	4,835,805	220,604	14,858		28,552,928
Supplies & Materials	67,646	28,605	32,212				243,745	92,763	1,830,067	4,184	254,071	33,246	59,732	7,388		2,653,659
Communications	490,015	20,526	43,141				3,087,688	106,384	5,879,826	2,757	708,111	16,052	32,154	5,850		10,392,504
Travel	63,361	32,125	241,473				15,248	10,734	301,146	2,659	51,958	17,170	33,883	6,818		776,575
Rent	217,024	43,392	113,225				315,371	100,880	4,952,737	4,804	95,565	58,208	81,601	16,605		5,999,412
Utilities							2,458,244		5,098		17,472	6,905				2,487,719
Repair & Maintenance	691,684	2,238	12,924				1,148,699	8,738	1,432,780	545	15,702	1,341	4,319	2,430		3,321,400
Other Expenses	1,949,594	60,410	112,638				931,974	663,005	3,389,903	4,969	21,366,705	122,929	64,888	7,690		28,674,705
Goods Purchased For Resale							9,052,189				1,100,898					10,153,087
Total	7,088,326	279,662	624,573				20,304,441	6,033,984	24,195,153	29,990	28,805,384	5,091,655	497,181	61,639		93,011,989
Equipment & Intangible Assets																
Equipment							(166,275)		709,621		15,000					558,346
Intangible Assets								(86,000)				(107,217)				(193,217)
Total							(166,275)	(86,000)	709,621		15,000	(107,217)				365,129
Capital Outlay																
Buildings				\$ 1,053,173	\$ 12,230,546	\$ 2,473,538									\$ 55,568,860	71,326,117
Other Improvements							(21,462)		127,235							105,773
Total				1,053,173	12,230,546	2,473,538	(21,462)		127,235						55,568,860	71,431,890
Local Assistance																
From State Sources	1,166,051													181		1,166,232
From Federal Sources	9,698,919															9,698,919
From Other Income Sources									6,149,176							6,149,176
Total	10,864,970								6,149,176					181		17,014,327
Grants																
From Federal Sources	182,504															182,504
Total	182,504															182,504
Benefits & Claims																
From State Sources								102,453,353								102,453,353
Insurance Payments								(8,593)				2,701,237				2,692,644
Other Financing Uses/Deduction	17,504,245															17,504,245
Total	17,504,245							102,444,760				2,701,237				122,650,242
Transfers																
Accounting Entity Transfers	42,847,430	1,379,000			22,985,095	772,890	500,000	410,691		24	11,420,242	103,809			40,000	80,459,181
Intra-Entity Expense	51,375,015															51,375,015
Total	94,222,445	1,379,000			22,985,095	772,890	500,000	410,691		24	11,420,242	103,809			40,000	131,834,196
Debt Service																
Bonds	23,225,426															23,225,426
Capital Leases	2,392								5,367							7,759
Installment Purchases							32,050									32,050
Total	23,227,818						32,050		5,367							23,265,235
Total Expenditures & Transfers-Out	\$ 157,250,471	\$ 2,692,408	\$ 2,850,637	\$ 1,053,173	\$ 35,215,641	\$ 3,246,428	\$ 24,442,313	\$ 109,438,980	\$ 42,705,405	\$ 168,041	\$ 41,862,442	\$ 8,650,286	\$ 2,215,938	\$ 353,949	\$ 55,608,860	\$ 487,754,972
EXPENDITURES & TRANSFERS-OUT BY FUND																
General Fund	\$ 97,210,279			\$ 7,787	\$ 19,901,888		\$ 703,344		\$ 3,740,487	\$ 74,171			\$ 990,393	\$ 353,949	\$ 840,601	\$ 122,982,298
State Special Revenue Fund	9,538,160	1,313,408	2,850,637	176,600	3,781,674	116,266	803,321	33,249	6,626,450	90,870		\$ 103,808	14,643			25,492,120
Federal Special Revenue Fund	366,663				1,238,581	771,060	28,192		895,034	3,000						3,302,530
Debt Service Fund	40,728,427															40,728,427
Capital Projects Fund	487,713	1,379,000		854,431	9,966,365	2,359,102	500,000		127,235					24,448,964		40,122,810
Enterprise Fund	270,337			14,355			649,420	6,003,466								48,800,020
Internal Service Fund	8,006,031				327,133		22,555,603	102,933,418	31,316,199		41,862,442	8,546,478	1,210,902	100,372		174,996,136
Private Purpose Trust Fund	642,861															642,861
Pension Trust Fund								468,847								468,847
Unexpended Plant Fund														29,649,276		29,649,276
Renewal & Replacement Fund														569,647		569,647
Total Expenditures & Transfers-Out	157,250,471	2,692,408	2,850,637	1,053,173	35,215,641	3,246,428	24,442,313	109,438,980	42,705,405	168,041	41,862,442	8,650,286	2,215,938	353,949	55,608,860	487,754,972
Less: Nonbudgeted Expenditures & Transfers-Out	64,425,847	1,379,064			21,650,838		225,180	803,321	(1,457,458)	(28)	11,173,125	(1,179,005)	39,562			97,060,445
Prior Year Expenditures & Transfers-Out Adjustments	14,520	1,132	529				(9,579)	11,563	453,090	3,334	(40,662)	52,969	(5,135)	(2,357)		479,404
Actual Budgeted Expenditures & Transfers-Out	92,810,104	1,312,212	2,850,108	1,053,173	13,564,803	3,246,428	24,226,712	108,624,096	43,709,773	164,735	30,729,979	9,776,322	2,181,511	356,306	55,608,860	380,215,122
Budget Authority	93,933,762	1,374,592	3,090,799	13,066,065	121,139,850	17,341,445	24,423,772	117,448,852	48,851,673	414,898	35,491,960	13,092,732	2,267,084	367,310	281,104,058	773,399,052
Unspent Budget Authority	\$ 1,123,658	62,380	230,691	\$ 12,012,892	\$ 107,575,047	\$ 14,095,017	\$ 197,060	\$ 8,824,756	\$ 5,142,100	\$ 250,163	\$ 4,761,981	\$ 3,316,410	\$ 85,573	\$ 11,004	\$ 225,495,198	\$ 383,183,930
UNSPENT BUDGET AUTHORITY BY FUND																
General Fund	\$ 603,247				\$ 2,566,868		\$ 11,769		\$ 243,040	\$ 158			\$ 2,778	\$ 11,004		\$ 3,438,863
State Special Revenue Fund	5,822	62,380	230,691	111,752	39,704,908	3,350,557		5,153	1,371,522	250,005			511,774		1,674,755	47,279,319
Federal Special Revenue Fund	287,438			4,786,077	7,354,364	2,050,102	21,585		3,336,234							17,835,800
Capital Projects Fund	157			7,103,273	57,875,476	8,694,358			106,767						34,260,252	108,040,284
Enterprise Fund	17,512			11,790			8,767	174,490			4,761,981					4,974,540
Internal Service Fund	209,482				73,431		154,939	8,645,113	84,537			2,804,636	82,795		56,024	12,110,957
Unexpended Plant Fund															188,807,704	188,807,704
Renewal & Replacement Fund															696,463	696,463
Unspent Budget Authority	\$ 1,123,658	\$ 62,380	\$ 230,691	\$ 12,012,892	\$ 107,575,047	\$ 14,095,017	\$ 197,060	\$ 8,824,756	\$ 5,142,100	\$ 250,163	\$ 4,761,981	\$ 3,316,410	\$ 85,573	\$ 11,004	\$ 225,495,198	\$ 383,183,930

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Department of Administration
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2008

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Capital Projects, and Debt Service) and certain liabilities of defined benefit pension plans and certain post employment healthcare plans. In applying the modified accrual basis, the department records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Private-Purpose Trust, Pension and Other Employee Benefit Trust, and Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

In order to reflect the total department operations the financial schedules present the combined operations of three separate business units identified on the state's accounting system; Department of Administration, Long-Range Building, and the Montana Consensus Council.

Department accounts are organized in funds according to state law applicable at the time transactions were recorded. The department uses the following funds:

Governmental Fund Category

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include the 911 Telecommunications Program, Architecture and Engineering Construction, Public Safety Radio, Banking and Financial Institutions Division, and Mineral Impact.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include federal surplus property, GIS federal funding, Homeland Security Grant, GIS Homeland Security Grant, Job and Growth Tax Relief Act, Public Safety Communications, Federal Forest Reserve, and the federal portion of the State Fund dividend.
- ♦ **Debt Service Fund** – to account for accumulated resources for the payment of general long-term debt principal and interest. The department uses this fund for the Long-Range Building Program and Information Technology bonds.
- ♦ **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The department uses this fund to account for activity in the Long-Range Building Program and for activity pertaining to the Department of Revenue tax software replacement project.

Proprietary Fund Category

- ♦ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. The department has 15 internal service funds. The three largest internal service funds include Information Technology Services Division, Agency Insurance, and Group Benefits.
- ♦ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes of similar revenues. Department Enterprise Funds include flexible spending funds, state lottery, and surplus property.

Fiduciary Fund Category

- ♦ **Pension and Other Employee Benefit Trust Funds** – to account for resources required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post employment benefit plans, or other employee benefit plans. Department pension trust funds include Voluntary Employee Beneficiary Association trust.
- ♦ **Private-Purpose Trust Fund** – to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. Department private-purpose trust funds include stale-dated warrants.
- ♦ **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal (to the state) clearing account activity, but these must have a zero balance at fiscal year-end. The department agency funds include Central Payroll and Federal Withholding.

Plant Funds

- ♦ **Plant Funds** – to account for transactions related to construction of university system properties. Because the Architecture and Engineering Division expends funds for university construction projects, the department records activity in the following sub-funds:
- ♦ **Unexpended Plant Funds** – comprised of amounts which have been appropriated or designated for construction or purchase of university improvements, buildings, and equipment.
- ♦ **Renewal and Replacement Funds** – provide resources for the remodeling or replacement of university properties.

2. General Fund Balance

The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department's total assets placed in the fund exceed outstanding liabilities, resulting in positive ending General Fund balances for each of the fiscal years ended June 30, 2007, and June 30, 2008. As stated in note 3, the department is the administrator of the General Fund. As a result, the cash balances in the General Fund at fiscal year-end for all other state agencies are closed and recorded on the department's accounting records.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General, State Special Revenue, Federal Special Revenue, Capital Projects, Internal Service, and Enterprise funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. The department is the administrator of the General Fund. The direct entry to

fund balance in the amount of approximately \$202,530,209 million in fiscal year 2006-07 and \$55,748,513 million in fiscal year 2007-08, reflects the department closing cash balances of other agencies sharing the General Fund. The General Fund balance shown on the Schedule of Changes in Fund Balances & Property Held in Trust is not the total fund balance of the state's General Fund.

4. Reorganization

In state fiscal year 2007-08, the department conducted a reorganization of the divisions within the department. The Director's Office Division, State Accounting Division, and Human Resources Division were created, and the Administrative and Financial Services Division and State Personnel Division went into these three new divisions.

5. Unspent Budget Authority

On the Schedule of Total Expenditures & Transfers-Out for both fiscal years 2006-07 and 2007-08, the columns titled Departments & Agencies, Corrections, DPHHS, and University System have material unspent budget authority amounts. These amounts are related to active projects administered by the Long-Range Building Program. The entire estimated cost of the project is encumbered when the project is started. Many projects are not completed in one fiscal year resulting in the unspent budget amounts on the schedules. The unspent budget amounts represent estimated costs to complete the active projects.

DEPARTMENT OF
ADMINISTRATION

DEPARTMENT RESPONSE

DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE

B-3



BRIAN SCHWEITZER, GOVERNOR

JANET R. KELLY, DIRECTOR

STATE OF MONTANA

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November 20, 2008

Ms. Tori Hunthausen
Legislative Auditor
Legislative Audit Division
PO Box 201705
Helena, MT 59620-1705

RECEIVED

NOV 20 2008

LEGISLATIVE AUDIT DIV.

Re: Financial Compliance Audit #08-13: Department of Administration for the two fiscal years ended June 30, 2008.

Dear Ms. Hunthausen:

The Department of Administration has reviewed the November 2008 Financial Compliance Audit for the two fiscal years ending June 30, 2008. Our responses to the recommendations appear below.

Recommendation #1

We recommend the department:

- A. Limit group benefit expenses to plan claims as required by state law.
- B. Fund the volunteer employee benefit account from plan revenue.
- C. Reimburse the group benefits fund \$498,622 for VEBA administrative costs charged to the group benefits fund.

Response:

- A. Concur. Since the end of FY2008, the Department does not fund the Voluntary Employee Beneficiary Association (VEBA) with funds from the group benefit fund.
- B. Concur. Since the end of FY2008, VEBA benefit plan revenue is supporting the program.

- C. Concur. The VEBA fund has repaid \$43,750.29 to the group benefits fund. The Department will continue its effort to repay the outstanding balance to the group benefits fund as funds permit.

Recommendation #2:

We recommend the department pay the procurement credit card bill through an appropriation as required by the state constitution.

Response:

Do not concur. The Department's process complies with State law and the Constitution. Payments are properly recorded against an appropriation or subclass on the state accounting system, normally within a matter of days, and always prior to fiscal year end. This process has been used since the establishment of the procurement card program in 1996.

The Department's chief legal counsel prepared a legal opinion affirming the legality of this process. The Department provided a copy of the opinion to the audit staff, and it is available to Audit Committee members and the public.

Recommendation #3:

We recommend the Department:

- A. Charge the approved SWCAP costs to state agencies to the extent possible, as defined in state law.
- B. Bill state agencies in proportion to the costs allocated in the SWCAP plan.

Response:

- A. Do not concur. The federal government does not have a problem with a government using a process that results in billing an amount less than the maximum allowed. This is not a questioned cost because the Department process did not result in overbilling the federal government.
- B. Conditionally concur. The Department implemented a process that will provide sufficient budget authority for all agencies to pay the full SWCAP amounts in FY2010 as a result of including an inflation factor.

The Department is now current in the SWCAP calculation and approval process as a result of preparing the plans in-house. Prior to 2007, a contractor prepared and negotiated the plans, which resulted in delinquent reports.

Recommendation #4:

We recommend the Department:

- A. Obtain required documentation prior to loan approval as required by state law.
- B. Request and obtain monthly billing certifications from agencies as required by state law.

Response:

- A. Concur. The Department will add additional language to the inter-entity loan form certifying that an agency requesting a loan for a federal or third party accounting entity "has and will continue to bill" the related parties.
- B. Concur. The Department has required that all loans to federal or third party accounting entities are supported by monthly billing certifications since April of 2008.

Recommendation #5:

We recommend the Department:

- A. Design and implement an internal control structure to ensure compliance with software license agreements.
- B. Establish internal controls to limit costs charged to Homeland Security Grants to those listed in an approved grant budget.

Response:

- A. Concur. The Department's Information Technology Services Division will continue to improve internal controls to ensure compliance with software license agreements. The Department will create a central repository for software licenses and develop internal procedures to review and maintain licensing agreements.
- B. Concur. The Department will compare actual expenditures against the approved grant budget.

Recommendation #6:

We recommend the Department complete its implementation of internal control procedures by monitoring and testing its established internal controls.

Response:

Conditionally concur. The Department will complete and implement an internal review and monitoring process as resources permit.

Recommendation #7:

We recommend the Department:

- A. Pay counties the federal forest reserve allocations plus interest within the time frame required by state law.
- B. Charge financial institutions for examinations conducted by the Banking and Financial Institutions Division as required by state law and administrative rule.
- C. Assign auditors to local government entities in the time period required by state law.
- D. Refund securities upon the completion of contracts as required by administrative rule.
- E. Send out written notices to apparent owners of abandoned property as required by state law.

Response:

- A. Concur. The Department will continue its practice to pay the federal forest reserve allocations to counties within the time frame required by law. The Department will establish procedures to pay counties any interest due within the time frame required by law.
- B. Concur. The Department's Banking and Financial Institutions Division (BFID) will charge financial institutions the examination fee of \$300 per day per examiner.
- C. Conditionally concur. The Department is not able to comply with the law due to the current time requirements of statute and the unavailability of local auditors. Therefore, the Department plans to submit legislation in the 2011 legislative session to modify this requirement.
- D. Concur. The Department will require agencies to notify its State Procurement Bureau when contracts are complete so that State Procurement Bureau can return the securities to the contractor.
- E. Conditionally concur. The Department will explore ways to automate the generation of letters from the state accounting system (SABHRS). The

Department of Revenue already includes all of these stale-dated warrants in its abandoned property notification process. As a result, sending additional notification to the stale-dated warrant addresses is redundant. Therefore, the Department plans to submit legislation in the 2011 Legislative Session to eliminate this requirement.

Recommendation #8

We recommend the Department record expenditure accrual activity for construction costs in accordance with state accounting policy and state law.

Response:

Concur. The Department is recording expenditure accrual activity for construction costs in accordance with state accounting policy and state law.

Recommendation #9

We recommend the Department:

- A. Ensure agencies with administrative responsibility for an accounting entity file a form to delete that role before assigning the entity for use by another agency.
- B. Develop expense categories as needed to disclose expenditures in appropriate activity classifications.

Response:

- A. Concur. The Department staff will ensure agencies properly complete and submit the forms for accounting entity establishment and maintenance. The Department's State Accounting Division will update the forms to meet the Department's and other state agencies' needs.
- B. Concur. The Department will add the necessary account classifications and categories to address expenditures.

Recommendation #10

We recommend the Department:

- A. Record holiday leave liability as required by state accounting policy.
- B. Follow state accounting policy for financial services license collections by third parties.

- C. Record revenue for financial examination costs incurred but not paid by fiscal year-end as required by state policy.

Response:

- A. Concur. The Department recorded the holiday leave liability on SABHRS by fiscal year end 2008 and will report it correctly in the FY2008 Comprehensive Annual Financial Report (CAFR).
- B. Concur. The Department will follow state accounting policy for financial services license collections by third parties.
- C. Concur. The Department will record revenue for financial examinations completed but not paid at fiscal year end.

Recommendation #11

We recommend the Department ensure rates for its rent and maintenance internal service funds are commensurate with costs as required by state law.

Response:

Concur. The Department offset the insurance recovery revenue against other anticipated revenue in calculating its rental rates for the 2010-2011 biennium.

I want to thank you and your staff for their hard work and careful examination during this audit. We always look upon the audit process as an opportunity to improve the department's operations and performance.

The Department's Corrective Action Plan (CAP) is enclosed.

Sincerely,


Janet R. Kelly, Director

Enclosure